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**Trust as the cement in the employment relationship? The role of organizational trust in
different workplace employment relations regimes**

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Short Bio: Bernd Brandl is Professor at Durham University. He is also the organizer of the research network on work, employment and industrial relations within the European Sociological Association. In his research he is dealing with questions in the field of international HRM and employment relations. His research is also informing international organizations.

Trust as the cement in the employment relationship? The role of trust in different workplace employment relations regimes

Purpose

This paper addresses the puzzle of why the same workplace employment relations regimes can lead to different performances and why different regimes can produce the same performance. It is argued that the incidence of mutual, and not necessarily unilateral, trust between the employee representation and the management accounts for these differences, as mutual trust fosters information sharing and helps to strike deals that are mutually beneficial. Against the background that the institutional and organisational characteristics of some workplace employment relations regimes also constitutes information sharing and joint decision making, we further argue that mutual trust is a functional equivalent.

Design/methodology/approach

Methodologically the article is international and cross-country comparative in nature and conducted on the basis of a unique, large, and transnational comparable data set of the employment relationship at firm level in eleven countries.

Findings

Our results show that strong mutual trust is associated with significantly higher incidences of increases in firm profitability, regardless of the workplace employment relations regime in which the firms are embedded.

Practical implications

The results clearly indicate that trust between the employee representation and the management works as a functional equivalent to performance enhancing employment relations regimes. Therefore, some policy recommendations and imposed institutional reforms of employment relations regimes by the IMF and the European Central Bank in some countries are sub-optimal and might not have been necessary. Trust building initiatives between the employee representation and the management are therefore an alternative, which is less conflictual and could have the same effect on the performance of firms.

Originality/value

Previous analyses on differences in the performance effects of workplace employment relations regime concentrated almost exclusively on institutional factors. Factors that account for differences in the functioning of regimes such as in particular the role of trust were not considered before. Against this background, the originality of this analysis is that it clearly shows that it is not sufficient to consider only the institutional and organisational structure of regimes, but it is essential for a better understanding of the effects of the employment relationship to consider factors which account for the functioning of the regimes such as, in particular, trust.

Introduction

There is agreement in the academic literature that the institutional and organizational structure of the employment relationship, i.e. the formal legal framework and the way the employee and the employer side interact, can vary substantially across countries, sectors, and companies (e.g. Amossé et al., 2016; Aumayr et al., 2011; Bechter et al., 2012; Crouch, 1993; Forth et al., 2017; Meardi, 2018). There also appears to be agreement in the literature that differences in the institutional and organizational structure are able to explain differences in outcomes such as for example differences in the wages and working conditions of employees, differences in job quality, as well as differences in the performance, e.g. profitability, of firms (e.g. Bayo-Moriones et al., 2013; Metcalf, 1993).

However, there is less agreement in the academic literature as well as in political and policymaking debates (e.g. European Commission, 2015; OECD 2004) about which institutional and organizational structures are associated with which effects, and which structures are comparatively more beneficial. This uncertainty in literature is also based on the empirical puzzle that different institutional structures are not only associated with the same outcomes and ‘*different organizational forms may be capable of similar performance*’ (OECD, 2004 p.166), but also that the same structures may be associated with different outcomes (e.g. Baccaro, 2014).

In this paper we argue that one important reason for this puzzle in the literature is that previous studies, which focused primarily on the effect of the institutional and organizational structures themselves, did not sufficiently consider other factors which may affect the functioning of the structures. In other words, previous studies paid less attention to the question of what actors do with the structures they have. We argue that the behaviour of actors within different institutional and organizational structures can differ and that *trust* in the employment

relationship is one important factor for differences in actors' behaviour, which has been previously overlooked. In this sense, we will argue that the functioning and effects of institutional and organizational structures can produce different outcomes if there is trust between actors on both sides of the employment relationship (or not). Specifically, by focusing on the firm level it will be hypothesized that if there is mutual trust between the employee representation and the management, the effects of their interaction on the profitability of firms, is different. We will explain that the reason why trust changes outcomes is because it intensifies the quality and quantity of communication between the two sides, which then encourages them to share relevant information and creates a workplace partnership (e.g. Guest and Peccei, 2001). Such a workplace partnership in turn can foster problem-solving behaviour and enhances their willingness to make joint decisions and strike deals which may involve compromises and short term losses for one side, but also leads to long-term mutually beneficial outcomes (e.g. Fox, 1974; Guest and Peccei, 2001; Kerkhof et al., 2003; Purcell, 1974).

However, some institutional and organizational structures of the employment relationship, i.e. of some *workplace employment relations regimes*, are equipped with extensive information, consultation and even co-decision rights already. Therefore, communication between the two sides and their information sharing is intensified by inherent institutional characteristics of the regime in any case. Consequently, the role and importance of trust and its effects can be expected to vary across different regimes. In this sense, we consider the effect of trust to be potentially inimitable and therefore to be a potential functional equivalent to some workplace employment relations regimes.

Thus, this paper contributes to the literature on the effects of different institutional and organisational structures of the employment relationship by augmenting and complementing existing studies and adding a further perspective examining differences in the functioning of different institutional and organisational structures. We do this in order to solve further bits and

pieces in the puzzle of how and why similar structures lead to very different outcomes and, vice versa, why different structures can lead to the same outcome.

The paper is structured as follows. In the next section, we discuss the role of trust for the functioning of the employment relationship. This section is followed by outlining the characteristics of different workplace employment relations regimes and the implications for the role of trust. Then, on basis of relevant literature we derive our hypotheses. This is followed by the presentation of the data and conceptualizations that enable our hypotheses tests. After presenting and discussing the results of our analysis and hypotheses tests, we finish by summarizing the main results and discuss the implications not only for current academic debates but also, as the question of the role of trust has (re-) entered recent political debates and initiatives, we outline the relevance of the results for political and policy making debates.

The role of trust for the functioning of the employment relationship

Trust is usually defined in literature as a perception that comprises the willingness to render oneself vulnerable to the other side on the expectation that the other side will not exploit this vulnerability (e.g. Dietz, 2004; Lyon et al. 2015; Rousseau et al., 1998; Sabel, 1993; Siebert et al, 2015). On basis of this definition literature widely agrees that the existence of trust is beneficial for the functioning of all kinds of organizations and therefore affects outcomes positively (e.g. Dirks and Ferrin, 2001; Fukuyama, 1996; Lane and Bachmann 1998, Luhmann, 1979, Möllering et al., 2004; Siebert et al. 2018).

The general reason why trust is beneficial for the functioning of organizations is that it fosters efficient and constructive interaction between actors and encourages risk taking behaviour of actors which then affects organizational outcomes positively (e.g. Mayer et al., 1995). In an intra-firm context, trust is argued to affect actors' attitudes and behaviour in a way

that helps firms to attain their goals. The causal mechanisms behind are different and vary to the context but usually trust is argued to affect the motivation and efforts of employees and managers positively. In addition to that, other aspects such as loyalty to the firm and turnover are affected. (e.g. Davis et al., 2000; Dirks and Ferrin, 2001; Innocenti et al., 2010; Lane and Bachmann, 1998; Siebert et al., 2018; Tzafrir, 2005; Zaheer et al., 1998).

Specifically, as regards the role of trust in the employment relationship, a similar positive effect is argued and empirical evidences reported in the literature. Some studies show that trust between actors on the two sides in the employment relationship facilitates the implementation of different Human Resource Management (HRM) practices and therefore is a key factor of 'success' (e.g. Dietz and Fortin, 2007; Holland et al., 2012; Kougiannou et al., 2015; Morgan and Zeffane, 2003; Nienhueser and Hossfeld, 2011; Saunders and Thornhill, 2003; Searle et al., 2011; Tzafrir, 2005). In addition to that, other studies even show that trust in the employment relation can even affect the financial performance of firms (e.g. Brown et al., 2015).

The reason why trust between the employee and employer side is considered to have a beneficial effect is that it also changes actors' behaviour accordingly. Specifically, if there is trust between the employee and employer side, it can be expected that the quality and quantity of communication between the two sides will improve (e.g. Taylor, 1989). This improvement in the communication then enables and fosters important information sharing (e.g. Butler, 1995) and in turn encourages problem-solving behaviour (e.g. Kerkhof et al., 2003). In the employment relationship, this information sharing aspect is especially reinforced or constituted by trust between actors and can be considered beneficial as it also reduces information asymmetries which are regarded as one main contributor to costly (labour) conflicts between the employee and employer side (e.g. Godard, 1992).

Many of above beneficial effects of trust in the employment relationship only impact fully if there is *mutual trust* between the employee and employer side. In fact, it is mutual trust and not unilateral trust, i.e. if one side trusts the other side but not vice versa, that fosters constructive and efficient communication flows, reduces information asymmetries and in particular enables joint decisions, agreements and deals. In fact only mutual trust constitutes the basis for a mutual partnership (e.g. Guest and Peccei, 2001) which enables both sides to take risks in order to strike deals which might potentially involve short term losses for one party but which can lead to long-term mutually beneficial outcomes (e.g. Butler, 1995; Nienhueser and Hossfeld, 2011). Thus, it is mutual trust in particular and not necessarily unilateral trust alone that can be considered pivotal for any beneficial effect of trust in the employment relationship.

However, trust is not the only source that constitutes and fosters communication and information sharing, joint decision-making and facilitates the two sides in the employment relationship in firms to strike deals. Some workplace employment relations regimes are equipped with extensive and legally backed information, consultation and even co-decision rights and obligations of the employee and employer side (e.g. Freeman and Medoff, 1984) which potentially have a similar beneficial effect to trust. Consequently, trust can be considered a *functional equivalent* to workplace employment relations regimes, which are legally equipped with extensive information, consultation and even co-decision rights and obligations and therefore can be considered to have similar effects.

This implies that there could be (at least) two forces that constitute and foster communication and information sharing, joint decision making and facilitate deals in firms and whether the two forces are complements or substitutes will depend upon the encompassment, degree and scale of the regime but also on the strength and degree of (mutual) trust. However,

given that the two sources are functional equivalents, the effect of trust might potentially be mitigated or even compensated for by some workplace employment relations regimes.

The variety of workplace employment relations regimes

The way that the employment relationship at the workplace level is voluntarily organized via different forms of partnership initiative or voice systems that aim to bring the employee and employer side together and/or institutionally regulated by law or even by the constitution, shows a high degree of variation across and within firms, sectors and countries. This variation also implies that the variation in how strong, pervasive and encompassing the information sharing, consultation, and co-decision rights and obligations of the employee and employer side are also varies substantially (e.g. Amossé et al., 2016; Aumayr et al., 2011; European Commission, 2015; Forth et al., 2017; Fulton, 2013; Meardi, 2018).

In the following analysis we will concentrate on the role of trust in institutionally based workplace employment relations regimes only. This means that we are not analysing voice systems that are based on voluntary initiatives and actions by employees, trade unions or the management. This means that in our analysis information sharing, consultation, and co-decision rights and obligations of the employee and employer side can be considered as institutional characteristics in the sense that they are exogenously given and defined via national legal regulations and usually apply to all firms within a country (e.g. Crouch, 1993; Gallie, 2007; Hall and Soskice, 2001). Consequently, all firms within a country are considered to be embedded within the same workplace employment relations regime that is equipped with the same or very similar characteristics.

Furthermore we will concentrate on a comparison of the role and effect of trust between the employee representation and the management in firms only. Methodologically, we

compare differences in the role and effect of trust on basis of firms in different countries in two different regimes. This approach of comparing different firms in different regimes and countries is typical in comparative literature even though results have to be critically reviewed as not only comparability is not straightforward and even impeded in some cases but also empirical problems have to be considered (e.g. Cafferkey et al. 2020). Nevertheless, the large sample size we are using and the data generation process of the data provider, which will be explained in more detail later, should allow a high degree of comparability.

However, the first one is a regime in which information sharing, consultation, and co-decision rights and obligations of the employee and employer side are strong, pervasive and encompassing and in the second these rights and obligations are weak and/or even absent. Thus we are comparing the role and effect of trust between two extreme cases of institutional workplace employment relations regimes.

These rights and obligations are strong in countries such as Austria, Belgium, Germany, Luxembourg, the Netherlands, and Slovenia, which are often grouped into a common form of workplace employment relations regime, which is frequently labelled as *Social Partnership Regime* (e.g. Bechter et al., 2012; European Commission, 2009). In these countries, a so-called dual channel system of employee side representation exists in the sense that the main actors on the employee side of the employment relationship are works councils and/or workplace trade unions. When works councillors in particular, who are elected by and from all employees and who are accountable to union and non-union members alike, are present at workplace level, this constitutes a strong and encompassing employee representation. Furthermore, works councillors in these countries enjoy not only high information and consultation rights, but also pervasive and strong co-decision and co-determination rights and obligations. In fact, in these countries, the latter rights and obligations are the highest in Europe, even higher than in Nordic countries. This means that in these countries firms are embedded in

a national workplace employment relations regime where the employment representation and the management are legally obliged and ‘bound’ to work together and have to make joint decisions and share information. For this reason trust is not the only source that leads to information sharing and joint decision making that lead to deals. Of course, there is not guarantee that these deals are successful and the existence of trust can be expected to be beneficial but since trust is not the only source we expect the role of trust to be *less* important in firms which are embedded in a Social Partnership Regime compared to firms in other regimes.

It is important to underline that the role of trust can be considered to be potentially less important but not unimportant. Furthermore the fact that trust is potentially less important does not imply that the incidence of trust in the employment relationship is affected negatively. Quite the contrary, the incidence of trust can even be expected to be relatively high in firms that fall under a Social Partnership Regime. The reason for this is that the institutional characteristics of the regime, i.e. the obligation to regularly and continuously interact and work together and the need to find agreements on certain firm matters, can be expected to foster trust building and establish a (mutual gain) partnership (e.g. Bozic et al. 2019; Guest and Peccei, 2001; Siebert et al. 2018). This is because trust is not something that is given to actors but is rather a social construction that (often slowly) develops through interactions over time by both sides (e.g. Fox, 1974; Lane and Bachmann, 1996; Laplante and Harrisson, 2008; Siebert et al. 2018). Specifically, in the Social Partnership Regime, the employee representation (usually) meets and interact with the management not only regularly but also continuously over years. This continuous interaction enables both sides to send ‘signals’ of (cooperative) behaviour to the other side (Six and Sorge, 2008) and to develop experiences about the behaviour and reaction of the other side over time (Bachmann and Inkpen, 2011; Brattström et al. 2018; Dietz, 2004; Swärd 2016). All of which also fosters trust building. Thus, the Social Partnership

Regime provides actors with a stable framework of continuous interaction in which trust can be built up and therefore it can be expected that the incidence of trust be relatively high compared to other regimes.

As a counterpart to the Social Partnership Regime we chose the so called *Polarised* (or Mediterranean) regime which can be found in France, Greece, Italy, Portugal and Spain. This regime is ideal for a comparison because information, consultation and co-decision rights are weak or often absent and therefore the role of trust can be considered (relatively) more important as there is no other institutional feature of the workplace employment regime that constitutes intensive information sharing and joint decision-making.

A comparison of the role of trust between firms that are embedded in the Polarised Regime against firms in the Social Partnership Regime is also preferable as the incidence of employee representation is relatively high in firms that fall under both regimes. For example the incidence of institutionally based employee representation is very low in other countries in which information, consultation and co-decision rights are also low such as for example in the so called Liberal countries, such as Ireland and the United Kingdom, and in Central and Eastern European countries (CEEC) (e.g. Meardi, 2018). A representative comparison of the role of trust in firms from Liberal and CEEC countries on the one hand with firms from countries with Social Partnership Regimes on the other hand is difficult especially because of the low incidence of institutionally based employee representation in such firms.

The effects of trust on profitability in different workplace employment relations regimes: hypotheses

The main aim of this study is to compare the role and effect of trust between firms in different workplace employment regimes. We will focus on the Polarised and the Social

Partnership Regime regimes explained above and follow the conceptualization of regimes according to main literature (Aumayr et al. 2011; Bechter et al. 2012; European Commission 2009; Forth et al. 2017). Methodologically and theoretically, comparing and analysing the role and effect of trust between groups of countries which fall into two distinct categories of workplace employment relations regimes has the main advantage that the complexity of the analysis can be reduced and the generalizability of the results increased. However, this categorization has the disadvantage, like categorizations in general, that not only the classification of one or the other country into a specific regime is partially questionable, but also that country variations which exist are omitted. Therefore, as regards the categorization of some countries, we tested the robustness of our results by excluding countries that are considered to be questionable. Our analysis therefore follows the established country classification into two distinct regimes predominantly used in the literature.

We explained that one important difference between the Polarised and the Social Partnership Regime is that the latter provides a stable framework of regular and continuous interaction between the employee representation and the management. Against the background that this institutional characteristic can be considered beneficial for trust building (e.g. Bachmann and Inkpen, 2011; Bozic et al. 2019; Six and Sorge, 2008), our first hypothesis is:

H1: The incidence of trust between the employee representation and the management is higher in firms which are embedded within a Social Partnership Regime compared to firms within a Polarised Regime.

In line with the literature on the positive effects of trust per se (e.g. Brown et al., 2015; Fukuyama, 1996) we expected the incidence of any form of trust to be generally beneficial for firms. At the least, we expected that trust does not harm firms' goals and performances. However, we further argued with respect to the role of trust in the employment relationship that the effect can be expected to rest strongly on mutual trust. The reason why we expected

mutual trust to be pivotal is that it not only fosters communication and information sharing, but it also lays the fundamental basis for a mutual gain workplace partnership (e.g. Guest and Peccei, 2001). This in turn enables problem solving behaviour and agreements on both sides and the ability to strike deals that might involve short-term losses for one side but which lead to long-term mutually beneficial outcomes (e.g. Butler, 1995; Nienhueser and Hossfeld, 2011). Against the background that unilateral trust does not suffice to make joint agreements and to strike deals, our second hypothesis is:

H2: Mutual trust between the employee representation and the management is associated with higher increases in firms' profitability compared to the absence of trust and all other forms of unilateral trust.

Because of methodological considerations we further expect that only strong mutual trust exerts a (statistically) significant effect and not necessarily (some) mutual trust. The reason for this is that, from a methodological perspective, the answer category 'some trust' potentially captures answers in the questionnaire survey that were affected by social desirability. Therefore, some trust in the other side should only be interpreted as an expression of a weak form of trust that reflects a 'good' or 'normal' (working) relationship which is characterized neither by excessive conflict or great harmony. Hence, the presence of some trust might not constitute a substantial change in actors' behaviour that materializes in systematic differences in firms' profitability increases.

As regards, actors' behaviour we explained that the beneficial impact of trust in the employment relationship on firms' profitability increases, rests on its effect on actors' behaviour. Specifically on the information sharing, joint decision and deal making behaviour. However, as explained, the same effect can also be constituted on the institutional obligation to do so which is inherent to the Social Partnership Regime. Thus, information sharing and co-decision making can be constituted and encouraged either/or by trust or institutionally by the

regime. This means that if the information sharing and co-decision making is not institutionally provided, it can be constituted by trust between the actors and therefore trust can be considered a functional equivalent. However, given that the two sources are functional equivalents, the effect of trust might potentially be mitigated or even be compensated for by firms within the Social Partnership Regime but not (or at least to a lesser extent) within the Polarised Regime. Accordingly we formulize our third hypothesis that

H3: The incidence of firms with profitability increases which are embedded in the Social Partnership Regime is less dependent upon variations in the incidence of different forms of trust compared to firms which are embedded in the Polarised Regime.

In other words, while the likelihood that firms within the Social Partnership Regime enjoy increases in profitability depends only a little upon the incidence of any form of unilateral or multilateral trust, the likelihood of profitability increases for firms in the Polarised Regime depends largely (and positively) on the incidence of (strong) mutual trust.

Data and conceptualizations

In the following empirical analysis, we use data from the 2013 wave of the European Company Survey (ECS) which is provided by Eurofound (2015). The ECS collects representative firm- or establishment-level data in all EU member states on employment relations and HRM issues including questions on the profitability of firms and on trust between the employee representation and the management.

One main advantage and uniqueness of the ECS is that it is a large-scale matched employee representation and management data set and much attention was given to cross-national comparability of data in the data collection process. For example, the questions in the

ECS questionnaire were translated into the native language of employee representatives and managers and particular attention given to consistency in the conceptualizations of the terminology used, which is important for many of the concepts and terms used in the survey, not least for trust. For details, see Eurofound (2015).

The ECS considers differences in the economic structure and size of countries and therefore the sample sizes for countries vary accordingly. For the group of countries with a Social Partnership Regime, the sample sizes are (with the first number giving the number of managers; and the second, the number of employee representatives): Austria (1,100; 385), Belgium (1,107; 412), Germany (1,673; 345), Luxembourg (563; 224), the Netherlands (1,108; 453), and Slovenia (550; 255). For the group of Polarised countries: France (1,657; 475), Greece (1,101; 144), Italy (1,652; 343), Portugal (1,103; 133), and Spain (1,651; 506). Even though the ECS is representative for all countries, the sample size for some countries, e.g. Luxembourg, is relatively small which makes the analysis of single countries problematic. Against this background, the alignment of the analysis along regimes finds further support as the sample size for the Social Partnership Regime is 6,101; 2074 and for the Polarised Regime is 7164; 1601.

As regards the performance of firms, the ECS includes the question ‘Since the beginning of 2010 [in the past 3 years], has the financial situation of this establishment ...’. Managers were asked to answer the question based on the following categories: ‘Improved’, ‘Remained about the same’, ‘Worsened’, ‘Don’t know’, ‘No answer’. In the following analysis we will use the answer ‘Increased’ to this question as the basis for our dependent variable ‘increase in firm profitability’. As with all performance measures, using increase in profitability in this specific conceptualization has advantages and disadvantages. On the one hand, the used conceptualization does not consider the wide spectrum of beneficial effects trust may have on firm outcomes, but on the other, it is a frequently used indicator in similar analyses

of the effects of trust (e.g. Brown et al., 2015; Bryson, 2001; Guest et al., 2008). Furthermore, the measure is, because of the nature of the survey, subjective and potentially biased. However, it has considerable validity given evidence from studies on similar measures of firm performance (e.g. Forth and McNabb, 2008; Wall et al., 2004).

As regards trust, the ECS also collects unique data on trust between employee representatives and managers by asking the two sides 'Please tell me - based on your experiences with the [employee representation/management] at this establishment - whether you agree or disagree?' Both sides were given the following answer categories: 'Strongly agree', 'Agree', 'Disagree', 'Strongly disagree', 'Don't know', 'No answer'. This means that the answer categories are also based on categorizations that are commonly used in literature (e.g. Brown et al., 2015; Fulmer and Gelfand, 2012). Based on these answer categories, we will use the term *strong trust* in the other side if the answer 'Strongly agree' was given and *some trust* if the answer 'Agree' was given by the respondents. Furthermore, we will use the term *mutual trust* if trust is returned by the other side. This means if trust exist on both sides. Given that we differentiate between 'some' and 'strong' trust we also differentiate in our terminology accordingly between *some* and *strong mutual trust*.

Even though the available data and operationalisations of variables from the ECS allows us to analyse different forms and directions of trust it also limits our analysis on trust between the employee representation on the employee side and the management on the employer side and not to all trust relationships in firms. Nevertheless, the data from the ECS allows us to test the hypotheses in a valid empirical analysis and the results are presented in the following.

Results: Different regimes, different outcomes?

Figure 1 shows the incidence of different forms of trust in firms which are embedded in (a) the Social Partnership Regime and (b) in the Polarised Regime.

INSERT FIGURE 1 ABOUT HERE

As can be seen, the incidences of different forms of trust varies for both regimes. First of all we see that for almost all forms of unilateral and mutual trust the incidences are higher in the Social Partnership Regime. Specifically, the incidence of trust in the employee representation is 5, trust in the management is 10, strong trust in the employee representation 11, and mutual trust 4 %-points higher in Social Partnership Regime than in the Polarised Regime. However, strong mutual trust in management is 7 %-points higher in the Polarised Regime and about the same between the two regimes for strong mutual trust. Apart from the latter form of trust, all these differences are also statistically significant. See Table 1 in the Appendix for tests on the statistical significance.

This result implies support for H1 as the incidences are predominantly higher for the majority of different forms of trust, for firms that are embedded in the Social Partnership Regime. Therefore, the Social Partnership Regime can be considered to provide a stable framework of continuous interaction between the employee representation and the management that fosters trust building between them. Even though the empirical results support H1, the differences in the incidence of trust between the two regimes are certainly not exorbitant and absolute as there are exceptions for some firms.

However, the results in Figure 1 also show an interesting stylized fact that for both regimes, trust in the management is substantially lower than trust in the employee representation. This stylized fact holds for some and strong trust and points towards a systematic asymmetry in the trust relationship between the two sides in the employment

relationship. More specifically, it shows that the employee representation has less trust in the management than the management has in the employee representation. Without being able to discuss this stylized fact further, a second stylized fact is that all forms of strong trust are relatively rare in firms from both regimes. Strong mutual trust between the employee representation and the management is very rare as the incidence is at 2.8 % for the Social Partnership Regime and 3.9 % for the Polarised Regime. This very low incidence of strong mutual trust is of special interest as we hypothesized in H2 that it is strong mutual trust that is pivotal and materializes in systematic increases in firms' profitability. As regards the empirical support for H2 we look at Figure 2.

INSERT FIGURE 2 ABOUT HERE

Figure 2 shows the incidence of firms in the two regimes that report increases in their profitability in the past three years. As can be seen, the share of firms with increases in their profitability in the case of the Social Partnership Regime is 30.7 % and in the case of the Polarised Regime 20.5 %. This direction of difference in profitability between the two regimes holds with one exception across differences in the incidences of different forms of trust. The exception is strong mutual trust. Table 2 in the Appendix shows that the differences between the two regimes are also statistically significant. The reasons for the difference in the incidences in the profitability of firms between the two regimes are certainly interesting and important, but would need an in-depth analysis that would overstretch this article.

In order to investigate if different forms of trust are associated with differences in the incidence of profitability increases, we investigate if the incidence of profitability increases for different forms of trust is below or above the average using the share of profitability increases of all firms as a benchmark. In order to be able to investigate whether differences are

statistically significant we not only make use of a t-test but also check for the robustness using a bootstrap test. Against the background that literature suggests that further control variables do not systematically change results (e.g. Brandl 2020) this straightforward approach on looking and testing differences is advantageous. Figure 2 not only shows the benchmark (bold line) but also shows (with dashed lines) the (confidence) intervals using the standard deviation (over the different forms of trust sub samples). The latter are used as an indicator of a substantial deviation from the benchmark. The deviations from the benchmark are further analysed by bootstrap tests for which the 95% confidence intervals are given in Table 2 in the Appendix.

As can be seen in Figure 2, the share of firms that enjoy increases in their profitability is highest in those in which the employment relationship is characterized by strong mutual trust. In addition to that, Figure 2 also shows that strong mutual trust is the only form of trust in which the share of firms' increases in profitability is substantially higher compared with all other forms. However, this result supports H2 as it shows that unilateral trust of either the employee representation or the management is not systematically associated with profitability increases nor does some mutual trust make a difference but, as hypothesized, only strong mutual trust does.

Figure 2 also shows that the share of firms with profitability increases is not only highest in firms in which we find strong mutual trust between the employment representation and the management, but also that these high shares are of similar size in both regimes. From a statistical perspective, the shares of profitability increases do not differ significantly between the two regimes (see Table 2 in the Appendix for the significance test) but also the share is even slightly higher, with 37.5 % for firms that are embedded in the Polarised Regime compared with 33.3% for firms from the Social Partnership Regime.

This result not only fully supports H3 but also implies that strong mutual trust can be considered a functional equivalent to workplace employment relations regimes in which the two sides in the employment relationship are obliged to share information and to make joint decisions. This means our results show that if information sharing and co-decision making is not institutionally provided, it can be constituted by mutual trust and the effect on the ability of firms to increase their profitability is basically the same.

Conclusions and discussion

This paper built upon previous studies on the effects and outcomes of different institutional and organizational structures in which the employment relationship is embedded and introduced the role and effect of trust between the employee and employer side at the firm level as an additional important factor to explain the effects of different workplace employment relations regimes. Thus, we augmented existing analyses by adding a further perspective examining differences in the functioning and effects of workplace employment relations regimes contingent on the incidence of different forms of trust.

We argued that the reason why trust has an impact on outcomes of the employment relationship is that it intensifies the quality and quantity of communication between the two sides, which then encourages them to share relevant information. This in turn fosters problem-solving behaviour and the willingness to make joint decisions and to strike deals that may involve compromises and short-term losses for one side, but ultimately lead to long-term mutually beneficial outcomes.

However, we also argued that trust might not be necessary to achieve the same beneficial outcome as it is not the only factor that can constitute and foster communication and information sharing, joint decision making and facilitates the two sides in the employment

relationship in firms to strike deals. Some workplace employment relations regimes are equipped with extensive and legally backed information, consultation and even co-decision rights and obligations of the employee and employer side and therefore might be associated with a similar beneficial effect to trust. Thus, we argued that the role and effect of trust on the performance of firms is not inimitable but can be a potential functional equivalent to some workplace employment relations regimes in the absence of institutional information, consultation and co-decision rights and obligations. Furthermore, we argued that only mutual trust is relevant with respect to the effect on the profitability of firms and unilateral forms of trust are not sufficient as it takes both sides to strike decisive deals.

We investigated our argument and tested hypotheses accordingly based on a unique matched employment representation/management data set at firm level. Specifically we analysed the effect of different forms of trust on profitability in more than 13,000 firms in eleven countries and compared two distinct regimes of workplace employment relations' representation. While in the Social Partnership Regime the employee representation and the management are equipped with extensive and legally backed information, consultation and even co-decision rights and obligations, in the Polarised Regime these rights are weak or even absent.

Our analysis showed that, *first*, the incidence of all forms of trust is higher in firms that are embedded in Social Partnership regime in comparison with firms in a Polarised Regime. This means that the incidence of all forms of trust is higher if the employment representation and the management work within an obligatory and stable institutional framework that is characterized by a continuous that allows them to build up trust.

Second, not all forms of trust suffice to cause systematic increases in the profitability of firms. Our analysis showed that only mutual trust between the employee representation and the management is decisive as the incidence of mutual trust in firms is associated with

significantly higher increases in profitability. Thus, in contrast to some literature, our results with respect to trust in the workplace employment relationship indicate that trust is not a magic bullet and not just any form of trust is associated with beneficial effects: the economically beneficial effect is conditional on very strong and rare forms of trust.

Third, the incidence of profitability increases in firms which are embedded in a workplace employment relations regime which is equipped with extensive information, consultation and even co-decision rights - such as the Social Partnership Regime – as well as in firms in which the workplace employment relationship is characterized by strong mutual trust, independent of the regime including the Polarised Regime. In other words, if we find strong mutual trust in firms from the Polarised Regime, the effect on the likelihood for profitability increases is similar to firms from the Social Partnership Regime. This result indicates that mutual trust can be considered a functional equivalent to the institutional information sharing and joint decision-making features that are inherent to the Social Partnership Regime.

Taken together, these results not only enable us to solve further bits and pieces of the puzzle on how and why similar regimes lead to very different outcomes and vice versa why different regimes can lead to the same outcome, but our results also have academic and political implications.

Academically, the results indicate that it is not sufficient for any assessment of the outcomes of different workplace employment relations regimes to consider only the institutional and organisational structure of regimes. Our results clearly showed that it is also advantageous for a better and deeper understanding of the effects of the employment relationship to consider factors that account for the functioning of the regimes such as, in particular, trust. In this sense we were able to show in the spirit of Jon Elster (1989) that both

specific characteristics of a workplace employment relations regime and mutual trust can serve as a ‘cement’ in the employment relationship which leads to the same outcomes and effects.

Politically, the results indicate that some policy advice and in particular some recently imposed institutional reforms of employment relations regimes in some countries might not have been necessary as alternative and potentially less conflictual pathways are available for policy-making in order to increase the performance of firms. Against the background that employment relations regimes in countries with a Polarised Regime such as for example Greece and Portugal were reformed with the motive of increasing the performance of firms (e.g. Marginson, 2015; Meardi, 2018) our results indicate that the necessity and even the success of some aspects of these reforms are questionable. In fact, our results show that it might have been sufficient and politically easier to implement if trust building between actors on both sides of the employment relationship would have been supported by the government. This also means that the ‘imposition’ of institutional reforms, which not only lead to confusion among actors but also to significant social unrest and costs for the economy and society (ILO and OECD, 2018), were not necessarily needed.

However, without being able to assess the advantages and disadvantages of any institutional reform of country specific institutional and organisational structures of the employment relationship, the results of this paper show that mutual trust in the employment relationship is associated with beneficial economic effects for firms and therefore trust building should be supported and fostered. There are, of course, various ways to support and foster trust building that might be explored, but this study showed that one particular way is the provision of a stable and continuous institutional framework that allows the two sides in the employment relationship to interact in a way that enables both to achieve long-term beneficial outcomes. Moreover, and given the fact that strong mutual trust is not only decisive but also very rare and fragile, as trust is not a given but often develops over a long time, existing trust relationships

should be cherished and treasured as it can constitute a significant economic advantage for firms.

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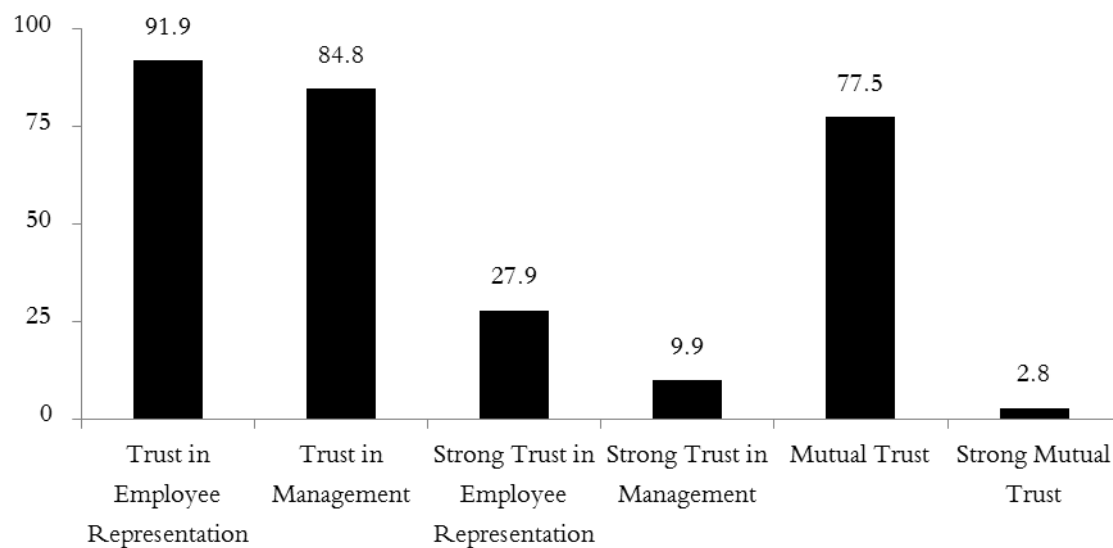
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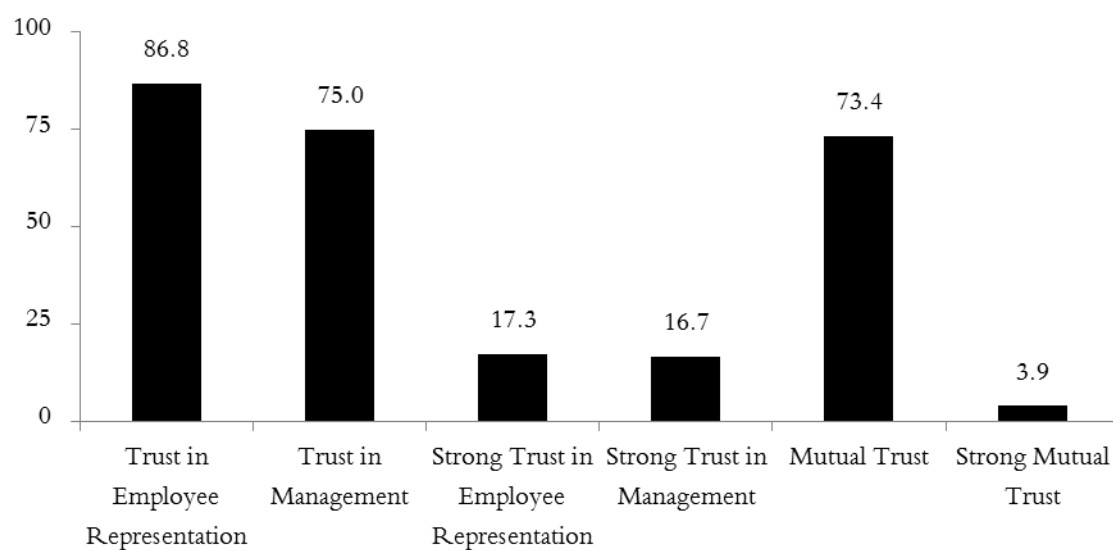
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Figures and Tables

Figure 1. The incidence of different forms of trust in firms.



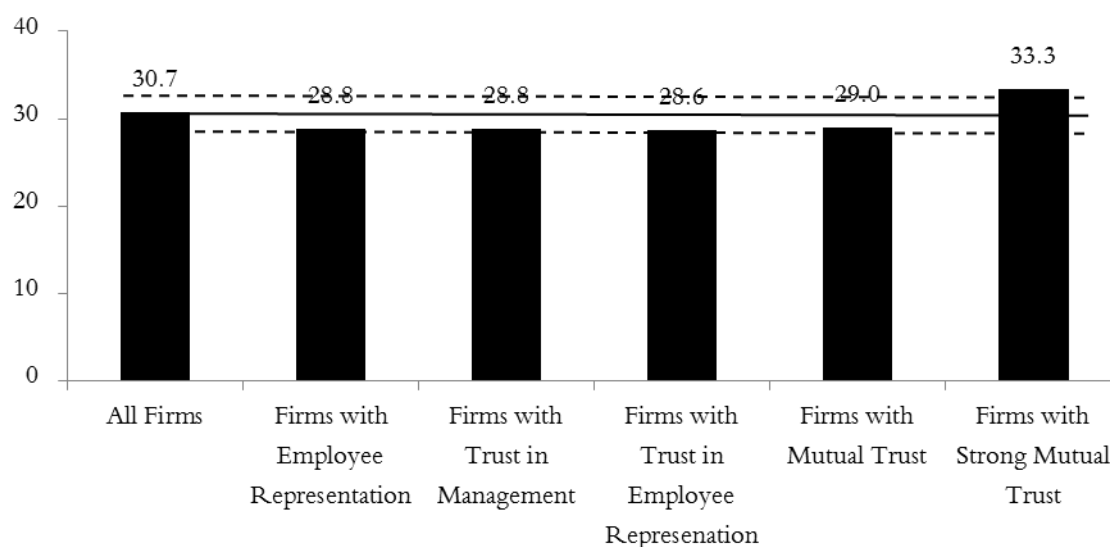
(a) Social Partnership Regime



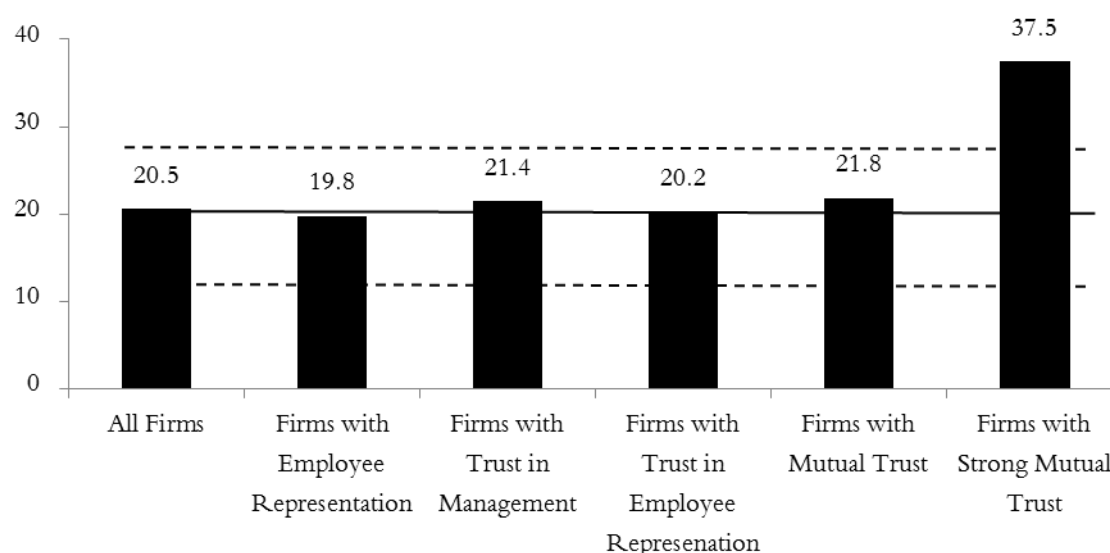
(b) Polarised Regime

Note: Bars show the percentage of firms which fall under (a) the Social Partnership regime and (b) the Polarised Regime in which the employee representation or the management has either some and/or strong trust in the other side as well as there is (strong) mutual trust. *Data source:* Eurofound (2015).

Figure 2. The incidence of firms with increases in profitability (in percentages).



(a) Social Partnership Regime



(b) Polarised Regime

Note: ‘All Firms’ shows share of firms with increases in the profitability compared with all firms; ‘Firms with Employee Representation’ shows share of firms with increases in the profitability compared with all firms with an employee representation; ‘Firms with Trust in Management’ shows share of firms with increases in the profitability in which the employee representation has trust in management compared with all firms with an employee representation; ‘Firms with Trust in Employee Representation’ shows share of firms with increases in the profitability in which the management has trust in the employee representation compared with all firms with an employee representation; ‘Firms with Mutual Trust’ shows share of firms with increases in the profitability in which there is mutual trust between the employee representation and the management compared with all firms with an employee representation; ‘Firms with Strong Mutual Trust’ shows share of firms with increases in the profitability in which there is strong mutual trust between the employee representation and the management compared with all firms with an employee representation; All shares are in percentages. Solid lines show the average incidence of firms with profitability increases over all firms. Dashed lines show upper and lower bounds [28.7; 32.7] for (a) and [13.0; 28.0] for (b) using the standard deviation over all sub-samples. Standard deviation for (a) = 2.0 and for (b) = 7.5. Bootstrap tests (on basis of 1000 samples) give a 95% confidence interval of [29.5; 32.0] for (a) and [16.1; 24.9] for (b). *Data source:* Eurofound (2015).

Appendix:

Table 1. Regime comparison of the incidence of different forms of trust.

	Social Partnership Regime			Polarised Regime			t-test for Differences between Regimes		
	Mean	Std. Dev.	Std. Error Mean	Mean	Std. Dev.	Std. Error Mean	Difference	t-value	p-value
Trust in Employee Representation	91.93	27.25	0.50	86.82	33.83	0.61	5.11	6.437	0.000
Trust in Management	84.82	35.90	0.89	74.98	43.33	1.21	9.84	6.546	0.000
Strong Trust in Employee Representation	27.87	44.84	0.83	17.34	37.86	0.69	10.53	9.799	0.000
Strong Trust in Management	9.88	29.85	0.74	16.71	37.32	1.05	-6.83	-5.339	0.000
Mutual Trust	77.54	46.63	1.17	73.41	44.29	1.27	4.13	2.996	0.003
Strong Mutual Trust	2.83	16.60	0.42	3.93	19.43	0.56	-1.1	-1.575	0.115

Note: Means are in percentage. Std. denotes Standard and Dev. Deviation. See notes in Figure 1 for further information on data and source.

Table 2. Regime comparison of firms with increases in the profitability dependent on different forms of trust.

	Social Partnership Regime			Polarised Regime			t-test for Differences between Regimes		
	Mean	Std. Dev.	Std. Error Mean	Mean	Std. Dev.	Std. Error Mean	Difference	t-value	p-value
All Firms	30.70	46.13	0.64	20.53	40.40	0.51	10.17	12.381	0.000
Firms with Employee Representation	28.81	37.28	0.51	19.83	29.95	0.38	8.98	10.559	0.000
Firms with Trust in Management	28.79	12.01	0.19	21.37	9.10	0.13	7.42	2.786	0.005
Firms with Trust in Employee Representation	28.63	22.47	0.34	20.18	16.76	0.22	8.45	6.073	0.000
Firms with Mutual Trust	29.11	28.73	0.45	21.82	18.17	0.25	7.29	10.933	0.000
Firms with Strong Mutual Trust	33.34	6.05	0.10	37.46	5.84	0.08	-4.12	0.204	0.838

Note: Means are in percentage. Std. denotes Standard and Dev. Deviation. See notes in Figure 2 for further information on data and source.